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Export-Import Bank Loans to Latin America

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Export-Import Bank Loans to Latin America

Prepared for the Foreign Policy Association by an author who has since taken an official position with the government.

War in Europe has seriously dislocated the foreign trade of the Latin American countries and their domestic economies. While the United States, until recently, has been in a position to supply the other American republics with their necessary imports—chiefly manufactured goods—it cannot readily increase its consumption of Latin American exports, consisting principally of foodstuffs and raw materials. The accumulation in Latin American countries of unmarketable surpluses of corn, cotton, wheat, meats and coffee, accompanied by a fall in prices, creates a shortage of foreign exchange for purchases in markets still open. These developments require economic action on the part of the United States if political unity in the Western Hemisphere is to be achieved. The success of political and military plans for defense of the Western Hemisphere hinges on the effectiveness of plans for its economic defense. Since the outbreak of war in 1939 the United States has been confronted with the far-reaching task of devising a program which would strengthen the economic position of the other American republics. Such a program must have two objectives: first, to alleviate the immediate effects of trade dislocations resulting from war; and, second, to lay the foundation for long-term economic unity in the Western Hemisphere.[1]

In such a program, financial aid plays an important part, although it can by no means be considered a substitute for a permanently increased exchange of goods between the United States and Latin America. The pattern of our consumption habits cannot be altered overnight, nor can the economies of the Latin American countries be promptly changed to complement the economy of the United States. In the course of a few years, however, constructive measures can be taken in both directions. Loans and advances by the United States can serve in considerable measure to bridge the gap between present maladjustments of trade and a permanent adjustment. They can insure a continuing supply of United States goods to Latin America—provided this country's national defense needs permit export of basic manufactured products—and they give time for all the nations of this hemisphere to expand trade with each other.

The emergency phase of financial assistance, however, should be replaced as promptly as possible by a long-run economic program, a large part of which must be carried out on the initiative of the United States. Such a program should have four primary aims: (1) development of new sources of supply in Latin America for the industries and consumers of this country; (2) increased utilization of Latin American resources for consumption by the Latin American countries themselves, particularly when such utilization decreases their dependence on European sources of supply; (3) adjustments in our own economy in order to permit greater importation of Latin American products currently considered as competitive with our production; and (4) study of methods (if necessary, non-commercial methods) by which the surplus commodity production of Latin America might more effectively be distributed among the countries of that region.

These long-term objectives cannot be accomplished quickly. They require capital investment in the form of men, money and machines. Yet they must be achieved if Latin America is to cooperate with the United States in a program of military defense, and if the other American republics are to be protected against the effects of post-war economic and political penetration by unfriendly powers. It is relatively unimportant whether the funds for long-term investments are supplied by the government or by private interests, but it is

1. Howard J. Trueblood, "Economic Defense of the Americas," *Foreign Policy Reports*, August 1, 1940; Paul V. Horn, "Economic Collaboration With Latin America," *Foreign Trade and Hemisphere Unity* (New York, National Industrial Conference Board, Inc., Conference Board Reports, May 1941), p. 22.

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important that capital be supplied—and on terms which will not bring accusations of financial imperialism against the United States.

Government loans to Latin American countries or in connection with Latin American trade are a relatively recent development. Before the establishment of the Export-Import Bank in 1934 and its cautious but growing participation in international finance, United States investments in and loans to Latin America were made solely on private initiative. The disastrous effects of the private loan orgy of the 1920's are still in evidence. On December 31, 1939, $1,610,332,000 of dollar bonds issued or guaranteed by Latin American governments, or their political subdivisions, were outstanding, of which $1,191,761,000 was in default as to principal and interest.[2] Direct investments have fared better. Investments in Latin America by American companies and individuals totaled $2,847,000 in 1936.[3] Income from these investments was almost 6 per cent in 1938, as compared with a yield of only 1.4 per cent on Latin American dollar bonds in the same year.[4] Expropriation of American oil properties in Mexico and cancellation of American oil concessions in Bolivia somewhat darken the picture in these countries, but neither case appears to be beyond hope of settlement.

Following the frenzied period of loans to Latin America in the 1920's and subsequent defaults, the attention of the United States government was concentrated on the collection of old loans. The capital markets of this country were to all intents and purposes closed to Latin American borrowers, and the government had no facilities to lend, even if it desired to do so. The Roosevelt Administration refused to act as a collector of private debts or to intervene for their settlement but, in promoting the formation of the Foreign Bondholders Protective Council in 1933, it indicated that the situation with respect to foreign dollar bonds was of substantial concern to the American people.[5] The making of new loans was not, then, a prime factor in our early Good Neighbor policy. Removal of frictions resulting from differing interpretations of the Monroe Doctrine was of far greater significance.

THE EXPORT-IMPORT BANK

Of all the government credit and financial agencies vested with power to assist Latin America, the Export-Import Bank is the most important.[6] With the exception of the Cuban coinage loans and the Brazilian exchange unblocking loans, the loans made by the bank have been primarily to encourage exports of heavy goods to Latin America. The two motivating factors behind these loans were: (1) to relieve unemployment in the heavy goods industries of the United States by increasing their exports; and (2) to enable the exporters of these products to meet competition, particularly by Germany, in the Latin American market.

The first evidence of a variation in this pattern of Export-Import Bank loans came with the $5,000,000 credit to Haiti in the summer of 1938 for construction of public works. This was followed in 1939 and 1940 by other commitments and loans which appreciably broadened the scope of the Bank's activities. The new policy was effectively strengthened by the passage of an act, in September 1940, increasing the Bank's lending power from $200,000,000 to $700,000,000, of which $500,000,000 was allocated for use in Latin America. Other provisions in an earlier bill, which decreased the usefulness of the Bank in the present crisis, were removed. As a result, this country was placed in a position to meet both the emergency needs of Latin America with respect to current shortages of dollar exchange, as well as the long-term requirements of hemispheric economic solidarity.

The broad lines of the new financial policy of the Export-Import Bank were set forth as follows by Jesse Jones, Federal Loan Administrator, in a letter of August 20, 1940, to the House Banking and Currency Committee supporting an increase in the Bank's lending powers:

"1. To put the bank in a position to continue to finance exports from this country, principally to the Latin American countries.

"2. To assist some of these countries in their economic problems which have been made acute by the European war, cutting off or greatly reducing their exports.

"3. That the bank may, through modest loans carefully made, assist some of the countries in increasing the production of the things that we import, and that we do not grow and must import. While it is not contemplated that loans would be made on sur-

2. Foreign Bondholders Protective Council, Inc., *Annual Report for 1939*, pp. 66-67. The case against Latin America is overstated in these figures as Brazil resumed service, although at reduced levels, on its bonded dollar debt of $356,307,745 in 1940, while the Chilean service plan on $176,424,000 of dollar debt is now considered acceptable to the Council. Panama and Colombia have both submitted plans covering the former's dollar debt of $15,950,486 and $51,223,500 of the latter's. Only the Panamanian plan has been recommended by the Council.

3. U. S. Department of Commerce, Bureau of Foreign and Domestic Commerce, *American Direct Investments in Foreign Countries, 1936*.

4. Willy Feuerlein and Elizabeth Hannan, *Dollars in Latin America* (New York, Council on Foreign Relations, 1941), p. 47.

5. Foreign Bondholders Protective Council, Inc., *Annual Report for 1934*, pp. 10-13.

6. The others are the Treasury Stabilization Fund and the Metals Reserve Company, a subsidiary of the R.F.C.

plus agricultural commodities, appropriate consideration would be given to applications from some of the governments or their central banks for loans in reasonable amounts that might enable the government or its banks to assist their nationals in the carrying and orderly marketing of some of their agricultural surpluses, with a view to avoiding demoralized prices that would affect our own farmers. No such loan would be considered that appeared to be inimical to our own agricultural interests.

"4. That we may be of some assistance in helping to improve their industrial situation, making them less dependent upon other countries."[7]

Because of the brief period during which the Bank's new facilities have been available, and the necessity heretofore of using its reserves to finance transactions with all parts of the world, the loans of the Bank in connection with Latin American trade and economic developments have been relatively modest, as shown in the following table:

EXPORT-IMPORT BANK LOANS RELATING TO LATIN AMERICA, DECEMBER 31, 1935-MARCH 31, 1941*

(In thousands of dollars)

	March 31, 1941		*Loans outstanding at end of—*					
Country of borrower	*Commitments to make additional loans*	*Loans Outstanding*	*1940*	*1939*	*1938*	*1937*	*1936*	*1935*
Latin America								
Argentina	62,420	105	105	......	......	......	......	......
Brazil	51,392	13,545	13,621	16,395	925	1,320	508	......
Chile	14,637	3,926	2,890	485	630	......	......	......
Colombia	2,100	7,678	5,825	38	......	......	......	......
Costa Rica	5,539	61	4	......	......	......	28	......
Cuba	15,300	......	......	......	1,493	......	1,064	4,062
Dominican Republic	3,275	25	......	......	......	......	......	......
Ecuador	1,150	30	15	......	......	......	......	......
Haiti	1,610	3,890	3,435	1,905	165	......	......	......
Mexico	......	121	130	136	472	890	73	50
Nicaragua	2,875	1,625	1,080	50	......	......	......	......
Panama	3,300	1,140	965	......	......	......	......	......
Paraguay	2,405	1,485	1,206	125	......	......	......	......
Peru	10,000	......	......	......	......	......	......	......
Uruguay	7,500	......	......	......	......	......	......	......
Venezuela	3,417	183	130	......	12	24	......	......
TOTAL (16 countries)	186,922	33,815	29,406	19,134	3,697	2,234	1,673	4,112

**Federal Reserve Bulletin* (Washington), May 1941, p. 386.

In order to give a clearer picture of the various fields in which the Export-Import Bank has been operating, its commitments and loans have been broken down into seven relatively homogeneous categories, as follows: (1) credits for the purpose of meeting seasonal or emergency shortages of exchange: (2) credits in connection with blocked commercial balances in Brazil; (3) roadbuilding and public works loans to the smaller and less well-developed Latin American countries; (4) heavy transportation equipment loans, consisting principally of assistance to United States exporters of railway rolling stock; (5) industrial development loans to Brazil and Chile; (6) coinage loans to Cuba; and (7) loans to the International Telephone and Telegraph Company for the development of its Latin American properties.

1. LOANS TO MEET EMERGENCY AND SEASONAL SHORTAGES OF DOLLAR EXCHANGE

By far the largest amount of the Bank's commitments, if not its loans, have been made for the purpose of maintaining the value of the Latin American currencies. Although these credits are reported by the Bank to be for the purchase of United States industrial and agricultural goods, they are actually designed to assist in redressing the balance of the borrowing countries' payments to the United States, whether the disequilibrium is due to the seasonal character of exports or to the disruption of trade with Europe.[8] Through these loans, Latin American currency depreciation can be prevented, and the piling up of blocked commercial balances avoided. In addition, these credits are essential to permit the con-

7. Cf. *The New York Times,* August 21, 1940.

8. Warren Lee Pierson, "Export-Import Bank Operations," *Annals of the American Academy of Political and Social Science,* September 1940, p. 38. Emergency needs are those arising from loss of export and import markets and abnormal shortages of dollar exchange, whereas seasonal needs are due to a shortage of exchange resulting from the concentration of exports in certain seasons of the year.

tinued purchase by Latin American nations in the United States of goods now unobtainable from Europe.

The countries which have received exchange credits are Argentina, $60,000,000; Brazil, $25,000,000; Chile, $5,000,000; Colombia, $10,000,000; Costa Rica, $1,000,000; Nicaragua, $500,000; Paraguay, $500,000; Peru, $10,000,000; and Uruguay, $7,500,000. According to reports, the whole of the Colombian and Uruguayan credits cannot be considered as exchange credits, although both are probably such in large part. The loan of $25,000,000 to Cuba on May 6, 1941 cannot be classified as an exchange loan, since the money is allocated to specific projects in that country. The credits to Brazil, Costa Rica, Nicaragua and Paraguay are revolving credits (i.e., money may be re-loaned as repaid), although the purposes to which all the credits are to be devoted are roughly the same.

Before September 26, 1940, when the lending authority of the Bank was increased by $500,000,000, the credits of the Export-Import Bank were used exclusively for the purchase of United States products. (An exception to this rule were the public works loans to Haiti and Paraguay, where a portion of the funds were used to pay for domestic labor and materials.) Since that time, more freedom has been granted the Latin American borrowers in their disposal of the proceeds of the loans.[9] Interest to be paid on this category of loans is not always made public, but 3.6 per cent was charged on the Argentine loan and on the revolving credits to Nicaragua, Costa Rica and Paraguay. Maturities vary according to the circumstances of each country and the judgment of the Bank; the longest maturity on an exchange loan thus far is 8½ years on that to Argentina. It may be noted that this loan has not yet been ratified by the Argentine Congress.

The goods which will be imported as a result of these loans are not likely to be vastly different from those imported before the granting of loans. The difficulties now encountered by the Latin American countries are a shortage of dollar exchange for normal purchases in the United States and the necessity of purchasing in this country goods formerly obtainable in European markets. Many of the countries, notably Argentina, Chile, Colombia and Uruguay, discourage by their own exchange systems the importation of other than essential goods. No very clear policy regarding the types of goods which may be purchased with the emergency loans has been announced by the Bank. In the case of the $25,000,000 loan to Brazil, it was stipulated that only essential goods should be purchased.[10] On the other hand, Chile requested complete liberty as to the nature of the purchases it would make with its $5,000,000 loan.[11]

Repayments in this category of loans have been small, chiefly because the first loan of this nature—to Nicaragua—was granted only in May 1939.

2. BRAZILIAN UNFREEZING LOANS

The Bank has also made two loans to facilitate payment of the blocked balances of American exporters in Brazil, which were unpaid because of lack of exchange. Although this type of loan, like the type discussed above, is designed to maintain the value of the borrowing country's currency, the Export-Import Bank was here dealing with a *post facto* trade situation. In the loans to meet emergency and seasonal shortages of dollar exchange, the Bank is attempting to provide Latin American countries with sufficient exchange to prevent the problem of blocked commercial balances from arising at all. The two loans to Brazil represented a departure from the Bank's general policy of not dealing with problems created by trade which had already taken place.[12]

(a) In February 1936 the National Foreign Trade Council of the United States, the government of Brazil, and the Bank of Brazil reached an agreement whereby the Bank of Brazil issued dollar obligations, guaranteed by the Brazilian government, to American exporters in exchange for their blocked milreis balances.[13] The Export-Import Bank was approached regarding its willingness to discount these obligations for the exporters. The Bank finally assented to this, but only on a full recourse basis against the exporter and at a 4 per cent interest rate. Other conditions also were imposed on the discount operations and, as a result, only 6 per cent of the total commitment of $27,711,551 was utilized by exporters.[14]

(b) A subsequent operation with a similar purpose, involving $19,200,000, was carried out directly between the Export-Import Bank and the Bank of Brazil in March 1939. More than 400 United States exporters have received payment in dollars for their blocked claims as a result of this credit, and the government of Brazil has been materially assisted in its desire to restore a relative

9. For a discussion of the reasons for this change in policy, see p. 89.

10. Federal Loan Administration, *Press Release*, November 23, 1940.

11. *Foreign Commerce Weekly*, February 22, 1941, p. 313. Chile, however, has not needed this loan and is not going to use it.

12. See *United States Government Manual*, Fall 1940, p. 351.

13. *The Commercial and Financial Chronicle* (New York), February 29, 1936, p. 1373.

14. For a full discussion of this unblocking operation, cf. Horace G. White, "Blocked Commercial Balances in American Foreign Policy," *The American Economic Review* (New York), March 1939.

degree of freedom to the exchange market.[15] There is no assurance that the same situation may not arise again but, presumably, the reform of the Brazilian exchange system, inaugurated subsequent to this credit, was designed to obviate further arrearages.

The principal difference between these two transactions with Brazil is that, in the first instance, the American exporter bore the entire risk of payment by Brazil and, in the second, the Export-Import Bank assumed the burden. Settlement of the claims was somewhat more prompt in the latter case, as the Bank of Brazil was supplied with dollars, and the principle of free exchange was made an integral part of the credit. In both operations, the Export-Import Bank was dealing with a *post facto* situation: the exports to Brazil had taken place, and only their repayment remained to complete the transaction. It may be noted that Brazil's obligations under the first credit have been extinguished, and are being promptly met under the second.

3. ROADBUILDING AND PUBLIC WORKS LOANS

Another category of the Bank's commitments to Latin America has as its object the construction of highways ($10,000,000 of these loans are for the construction of the Pan American Highway), and the promotion of public works.[16] These operations may be termed "roadbuilding and public works loans." Total commitments under this general classification amount to $23,000,000 through December 31, 1940, and were made to seven countries.[17] Of this sum, $15,000,000 is destined almost exclusively for road construction, while the remaining $8,000,000 is scattered among such projects as roads, bridges, port developments, irrigation works, and water systems.

On May 1, 1941 President Roosevelt sent a message to Congress requesting an appropriation of $20,000,000 to complete the Pan American Highway through Guatemala, El Salvador, Honduras, Nicaragua, Costa Rica and Panama as far as the Canal.[18] According to the report submitted by Secretary of State Hull, this project is intended to strengthen the defenses and economies of the Central American area. The United States appropriation would represent two-thirds of the total cost of completing construction on the 1,500-mile stretch of the Pan American Highway, while the other six countries would assume one-third of the cost. This project refers to future construction on the Pan American Highway and does not take into consideration the $9,100,000 already lent to Costa Rica, Nicaragua and Panama for construction of their respective sections of the highway.

The commitment in 1938 to discount $5,000,000 of the notes of the government of Haiti for the J. G. White engineering firm was the first political transaction effected by the Export-Import Bank, in the sense that it implemented our Latin American policy.[19] Since that time, and particularly in 1940, direct loans and commitments to foreign governments and central banks have become the rule, rather than the exception, in the Bank's loan policy.

4. HEAVY TRANSPORTATION EQUIPMENT LOANS

The Bank has participated in the financing of a considerable quantity of heavy transportation equipment, consisting principally of railway supplies, although the sale of 14 ships to Brazil is included. About two-thirds of the funds advanced for this purpose have been for exports to Brazil, while over three-quarters of the active commitments are also to be used for Brazilian purchases. The bulk of the remaining disbursements is the result of shipments to Mexico and Chile. Argentina, Costa Rica and Ecuador have also received loans or commitments.

The Bank's agreement to participate with the General Electric Company to the extent of $4,340,000 in financing the sale of American machinery and equipment required in the electrification of a portion of the Sorocabana Railway in Brazil is an example of its activity in this field. The Bank's commitment will take the form of rediscounting for General Electric, without recourse, up to 70 per cent of the notes issued by the Brazilian buyer for the purchase of the equipment.[20] Repayment of the loan will be in installments over ten years, with interest at 4½ per cent. Other railway equipment has been, and is to be, shipped as a result of advances to the foreign debtor, who then makes the purchase for cash. In this case, the Bank bears the entire burden of the credit.

Credits to Brazil since March 1940 for the purchase of railway equipment are principally a result of the March 1939 agreement between the Export-Import Bank and Brazil. By this agree-

15. Cf. Department of State, *Press Release No. 84*, March 9, 1939.

16. The $3,000,000 loan to the Dominican Republic will be used to finance purchases of roadbuilding equipment and a dredge, as well as to finance the construction of a hotel already started. *The New York Times*, December 22, 1940.

17. Costa Rica, the Dominican Republic, Ecuador, Haiti, Nicaragua, Panama and Paraguay. An additional $2,000,000 was made available to Nicaragua in March 1941 for another—not the Pan American—road project. *The New York Times*, March 23, 1941.

18. *Journal of Commerce* (New York), May 2, 1941.

19. *The New York Times*, July 24, 1938.

20. *Ibid.*, April 5, 1940.

ment, the Export-Import Bank undertook to extend credits which would assist in improving Brazil's transportation facilities and the development of its productive capacity.[21]

5. INDUSTRIAL DEVELOPMENT LOANS

Loans to Brazil and Chile to finance the purchase of machinery and equipment for construction of industrial facilities constitute another broad category of the Bank's operations. The commitment to Brazil of $20,000,000, made on September 26, 1940, for the acquisition of steel-mill equipment in this country, deserves special attention. Brazil possesses what are believed to be the largest iron ore reserves in the world,[22] and the development of a steel industry has been one of the great industrial dreams of the Vargas administration. It is reported that both the Krupp Works and Japan had offered to construct a steel plant in Brazil.[23] In 1939 a contract between the United States Steel Company and the Brazilian government was almost concluded but, at the last moment, it was apparently decided that investment in foreign enterprises was against the company's policy, and the plan was abandoned.

Although the Export-Import Bank is supplying the necessary dollar funds for the construction of the new mill, the entire ownership will be in the hands of Brazilians. The government of Brazil, certain Brazilian savings banks, and others are to invest, in the form of milreis, $25,000,000 in the common stock and the 6 per cent preferred stock of the new company.[24] Although ownership will be vested in Brazil, the interests of the Export-Import Bank are adequately protected. Guarantees are to be given that the Bank loan will constitute a first claim against the mill, and the Bank will enjoy considerable freedom in the selection of the managers, engineers and contractors for the company, as well as in the purchase of materials for the duration of the loan.[25] The loan will be repayable in twenty semi-annual installments bearing 4 per cent interest, the first payment to fall due three years after the first advance.

The opportunity to obtain dollar assistance at a rate which does not endanger the financial success of the steel venture, and the retention of full ownership, should give Brazil no cause for either political or economic complaints. The rate of interest of the advance, although not low in view of the political aspects of our lending program in Latin America, is still not so high as to lead to charges of financial imperialism on our part—a charge that has been made against many American companies engaged in exploiting the natural resources of Latin America. Moreover, full ownership will entitle Brazil to reinvest the reserves and profits in the company. While this type of loan cannot be considered a pattern for private American investments, it indicates some of the pitfalls to be avoided in the development of Latin American resources.

It is not likely that there will be many other single projects in Latin America on the scale of the Brazilian steel mill but, on the other hand, considerable opportunities exist to aid Latin America through institutions similar to the Chilean Corporación de Fomento de la Producción. The Corporación is a government institution, charged with the task of increasing production of manufactured and raw materials. To accomplish this, it studies and plans various projects and provides the necessary funds and financial assistance to carry through the acceptable projects. Its operations resemble somewhat those of the R.F.C. in this country under present emergency conditions, although the Chilean organization participates more directly in the projects in which it is interested. This type of agency or corporation appears to offer the necessary liaison facilities between the Export-Import Bank and Latin American industry, and it is conceivable that this form of lending by the Bank may become the accepted method of United States participation in the industrial development of Latin America.

On September 27, 1939 the Export-Import Bank made a commitment of $5,000,000 to the Chilean Corporación de Fomento de la Produccion for the purchase of United States agricultural and industrial products. This commitment was increased to $12,000,000 on May 10, 1940. The exact uses to which this loan is to be put have not been revealed, but the original Chilean plan, approved by the President of Chile, called for the employment of $23,600,000 in the following manner: 34 per cent to be used by the Department of Power and Fuel; 28 per cent by the Department of Transportation and Commerce; 24 per cent by the Department of Industries; 8 per cent by the Department of Agriculture; and 6 per cent by the Bureau of Mines.[26] The Export-Import Bank cut this an-

21. Department of State, *Press Release No. 84*, March 9, 1939.

22. H. F. Bain and T. T. Reed, *Ores and Industry in South America* (New York, Harper, 1934), p. 146.

23. *The New York Times*, September 27, 29, 1940.

24. The Brazilian company, which is to own and operate the mill, will be known as the Companhia Siderurgica Nacional (National Iron and Steel Company). The plant itself will be located at Volta Redonda, about 90 miles from Rio de Janeiro, on the railroad to São Paulo. It will consist of coke ovens, a blast furnace of 1,000 tons daily capacity, open-hearth steel furnaces with an annual capacity of 350,000 tons, and rolling mills for the production of a complete range of rolled steel products. The new plant will bring Brazil's steel-producing capacity to about 500,000 tons annually.

25. Federal Loan Agency, *Press Release*, September 26, 1940.

26. *The New York Times*, July 23, 1940.

ticipated loan in half, but presumably the same plan is being carried out on a lesser scale.[27] The interesting aspect of this loan is that the Bank is not supplying exchange for current needs, but is giving support to a project which otherwise might not have proved possible. Chile's current exchange receipts may cover private import needs, but are probably insufficient to allow the realization of a coordinated plan to increase national production. Although lack of details hinders analysis, the available material indicates that the loan may well decrease pressure on the Chilean balance of payments. The loan, however, is to be repaid in four years which, in view of the nature of the undertaking, may be too short a period.

6. COINAGE LOANS TO CUBA

The Export-Import Bank has made a series of five loans, totaling $27,441,000, to the Republic of Cuba, to finance coinage operations for that country. Of this amount, $27,318,000 was used to purchase silver and pay the costs of minting 70,000,000 standard Cuban pesos.[28] All the advances have been repaid in full.

Although this form of financing by the Bank was unique, the underlying transaction — that of minting pesos for Cuba — was one which had already been performed for Cuba by the United States Mint.[29] In a statement covering the first silver transaction, the Department of State pointed out that the acquisition of silver by Cuba was important to Cuban economic recovery and might indirectly lead to increased trade between the two countries. Moreover, the Cuban government would be strengthened financially by seigniorage profits.[30] It is probably true that the inflationary effects of the measure were stimulating to the Cuban economy. It may be doubted, however, that the Bank, by granting the credits, performed a service which was unobtainable elsewhere, for the following reasons: Cuba had had silver pesos minted previously without Export-Import assistance; the rate of interest on the Export-Import Bank's advances was 3¾ per cent per annum, plus a commission of $3 per 1,000 pesos, and the term of the loan was relatively short;[31] the largest of the five transactions involved only $7,311,537; and the coined pesos were retained until payment was made. One must take these limitations on the peso coinage loans into account when the magnitude and significance of the Bank's total loans to Latin America are being discussed. Disbursements under these five loans constitute 33.6 per cent of the total disbursements of the Export-Import Bank having to do with Latin America.

7. LOANS TO THE INTERNATIONAL TELEPHONE AND TELEGRAPH COMPANY

Another special type of loan is one of $10,000,000 to the International Telephone and Telegraph Company, to develop its properties in South America.[32] This credit, granted on December 8, 1938, represents the Bank's participation in a $15,000,000 credit, the other $5,000,000 being provided by five American commercial banks. It should be noted that the transaction provides for repayments in installments over ten years, and is not directly related to trade[33] although the company exports annually over $3,000,000 worth of telephone equipment.[34] Another loan of $1,500,000 was granted to the same company on September 17, 1940.

The above seven categories of loans cover about 95 per cent of the Export-Import Bank's operations in Latin America. The remainder of the Bank's loans to that area have helped to finance the exportation of United States farm and industrial machinery, as well as agricultural products, the construction of a hotel in Venezuela, and the importation of tropical products from Brazil.

The only imports the Bank has financed from Latin America have been tropical products from Brazil, to the value of $1,759,242. This may appear somewhat anomalous in view of the fact that the most obvious solution to the problem of aiding Latin America is to buy more goods from that area, but American importers have sufficient credit facilities and no exchange shortage problem. Repayments on import loans have been made promptly, and only $180,204 is outstanding.

TRENDS IN U.S. LOANS

During the first five years of the Export-Import Bank's operations no direct loans were made to foreign central banks or official banks for the purpose of meeting emergency exchange conditions. The Bank did not assist or participate in the financing of any industrial projects in Latin America, whether these were for the purpose of making the countries of that area less dependent on foreign products (European or American), or for fuller utilization of domestic resources. This period is characterized by special transactions—for ex-

27. *Ibid.*, August 15, 1940.

28. Pierson, "Export-Import Bank Operations," cited, p. 38.

29. *Annual Report of the Director of the Mint, 1932* (Washington, Government Printing Office, 1933).

30. Department of State, *Press Release*, May 5, 1934.

31. Cf. Charles R. Whittlesey, "Five Years of the Export-Import Bank," *The American Economic Review*, September 1939, p. 495.

32. Reconstruction Finance Corporation, *Press Release*, December 13, 1938.

33. Whittlesey, "Five Years of the Export-Import Bank," cited, p. 493.

34. Warren Lee Pierson, "Activities of the Export-Import Bank," September 30, 1940.

ample, with Cuba for coinage and with Brazil for exchange unblocking—and by participating commitments and loans to American exporters of durable goods, especially railway equipment. The Haitian transaction is the one outstanding exception in this era of the Good Neighbor policy. Although this loan totaled only $5,000,000, it was sufficient to insure a relative amount of prosperity to Haiti in time of stress. No assistance was given by the Export-Import Bank to other Latin American republics for industrial development, public works or expansion of resources, unless commitments to our exporters of heavy goods can be considered as falling into this category.

The failure of the Bank to go beyond these relatively limited transactions may be partially explained by lack of funds,[35] but primarily it appears to be due to cautious interpretation of the original purpose of the Bank.[36] With some exceptions, the idea persisted that the Bank's financial power had to be closely connected with the actual movement of goods and services. As late as September 1940 Mr. Pierson referred to all transactions, other than those for the financing of heavy goods and agricultural exports, as special transactions.[37] The Haitian loan, although in the nature of a direct loan to a government, was effected by discounting for J. G. White and Company, without recourse, the notes of the Haitian government. Jesse Jones, in his testimony on a bill increasing the Bank's lending power by $500,000,000 agreed that the original conception of the Export-Import Bank was being changed to permit the Bank to play a part in the national defense program.[38]

Between May 1939 and June 1940, however, the Bank had already begun to change its policies concerning the types of loans to be made in Latin America. This new pattern closely resembles that followed since the passage of the new Export-Import Bank bill in September 1940. For example, the loans to Argentina and Uruguay have been superseded by new and larger credits; an additional $10,000,000 was made available to Brazil for the steel mill project; and Peru has received an increase of $8,000,000 in its original credit.

The act of September 26, 1940 did three important things: it dropped the limitation of $20,000,000 on loans to any one nation and its nationals and agencies; it removed the limitation on the financing of war material exports; and it restated the purposes of the Bank. The restatement of the Bank's purposes, which are now "to assist in the development of the resources, the stabilization of the economies, and the orderly marketing of the products of the countries of the Western Hemisphere . . . "[39] broadens the original concept of the Bank by statute and allows greater freedom of action to the administrators of the institution.

Permission to make loans in excess of $20,000,000 to any one nation and its nationals and agencies was promptly utilized by the Bank in extending and granting credits to Argentina and Brazil which greatly exceeded the old limitation. No loans or credits, however, have been made to finance Latin American purchases of war materials. The Bank's activities in this field may be replaced by direct government operations under the Lease-Lend Act. General Marshall, United States Army Chief of Staff, has announced that a number of Latin American nations, notably Brazil, are negotiating for military equipment, and that everything is being done to promote the acquisition of such materials in this country.[40]

Among the other new powers of the Bank is its right to allow greater freedom on the part of the borrowing countries with respect to their disposal of the dollar proceeds of the new loans. Jesse Jones testified on February 20, 1940 before the House Committee on Banking and Currency that every dollar borrowed by foreign countries was to be spent in the United States.[41] On August 6, 1940 he stated before the same committee, in connection with the $500,000,000 lending increase, that the Bank would have an understanding with each borrower as to what part of each loan is to be spent in the United States, and would not attempt to control the remainder.[42] Mr. Jones also did not consider it advisable to put into the act a proviso fixing the percentage of each loan which must be spent in this country, preferring that the matter be left to the discretion of the Bank's directors. A possible explanation of this stand is that in several of the borrowing countries free exchange markets are maintained. Where this is the case, the central bank—usually the borrowing institution—frequently intervenes to meet shortages. Under such circumstances, it is not possible to determine

35. The Bank has been overcommitted several times, but it has not exceeded its loan limit. On December 31, 1940, loans were $569,000,000 below the permissible level.

36. "The purpose of the Bank is to aid in financing and to facilitate exports, imports, and the exchange of commodities between the United States and any of its territories and insular possessions and any foreign country or its agencies or nations." *United States Government Manual,* Fall 1940, p. 350.

37. Pierson, "Activities of the Export-Import Bank," cited, p. 3.

38. U.S., 76th Congress, 3rd session, *Hearings before the House Committee on Banking and Currency on (H.R. 10212) superseded by H.R. 10361,* August 6, 7, 8, 13, 14, 1940.

39. An act to provide for increasing the lending authority of the Export-Import Bank of Washington, and further purposes. *Public No. 792,* September 26, 1940.

40. *New York Herald Tribune,* March 21, 1941.

41. U.S., 76th Congress, 3rd session, *Hearings before the House Committee on Banking and Currency on S. 3069 (H.R. 8477),* February 16, 19, 20, 1940.

42. *Hearings on H.R. 10212 superseded by H.R. 10361,* p. 58.

the ultimate use of the dollars, as they are distributed to the banks which, in turn, redistribute them to their customers. The blocking of these dollars for the sole use of the borrower in the United States would establish a partially non-free dollar, a development which is contrary to the general policies of the government. In some instances the borrowers may want to use dollars for purchases in other Latin American countries, thus stimulating inter-Latin American trade.

The President, in his message to Congress of July 22, 1940, requesting an increase of the capital and lending authority of the Bank, urged removal of "some of the restrictions on its [the Export-Import Bank's] operations to the end that the bank may be of greater assistance to our neighbors south of the Rio Grande, including financing the handling and orderly marketing of some part of their surpluses." Such assistance might take the form of stabilizing the economies and developing the resources of Latin American countries. New industries might be established which would reduce the dependence of these countries on foreign sources of supply. New exports might be stimulated by developing hitherto unexploited strategic materials, and certain foodstuffs previously imported by the United States from Europe.

The only loan of the Bank aimed at increasing Latin American development of products complementing our economy is the recent loan to Haiti. An additional $500,000 has been made available to that country, under the J. G. White contract, for irrigation projects and construction of highways and other transportation facilities to areas suitable for rubber growing.[43] It is probable that a number of similar projects is being studied by the Bank in connection with the Department of Agriculture but, thus far, no other such loans have been granted. Among the many public and private groups and agencies working on the problem of developing Latin American resources for sale in this and other markets of the Western Hemisphere, one of the most outstanding is the Inter-American Development Commission, composed of representatives of all 21 republics.[44]

OLD LOANS AND NEW

The status of defaulted Latin American bonds does not appear to be appreciably altered by the new loans. Their position is not likely to deteriorate, and the new loans may improve prospects of repayment. Pointing out that there is no "rule of thumb" policy on this subject, Mr. Pierson has said that "each situation is examined in the light of the facts and our own interests."[45] Provided a country manifests willingness to pay its old debts, he declared, there is no reason why conservative credits—designed to improve the country's balance of payments position—should not be granted. Unfortunately, however, no very definite or acceptable concept exists as to what constitutes "willingness to pay." The Foreign Bondholders Protective Council has made many statements on the subject, but these have not always proved useful in practice. The Department of State disagreed with the Council on the reasonableness of the recent offer by Colombia to resume government service on its national dollar debt.[46]

Jesse Jones declared that he did not think the new loans would be used to pay off the old ones, indicating that the Bank would not become a salvaging organization for old debts.[47] At the same time, he said that no Export-Import Bank loan would be conditioned on prior repayment of other loans.[48] This would seem to indicate that settlements could be reached on outstanding loans without waiting for repayment of the Bank's loans, which would be serviced according to their respective terms.

Loans to countries which have expropriated or confiscated American property are apparently contingent on the possibility of reaching an agreement regarding these matters. Negotiations with Mexico have not yet been sufficiently revealed to clarify the attitude of the United States on loans to that country, but documents recently made public in the Bolivian Congress offer some evidence of the Bank's attitude on the subject. When Bolivia requested a $10,000,000 Export-Import Bank loan, it met with refusal because of its cancellation of Standard Oil concessions.[49] Bolivia also has an outstanding dollar debt of $59,422,000 on which no service is being made.

To some extent, it will be necessary for the Latin American countries to reduce their dependence on the United States if old and new loans are to be repaid. Dependence could be reduced through the reopening of world markets; an increase in the production of goods now imported from the United States; an increase in exports to us; and, to a minor extent, growth in tourist traffic to Latin America.

43. *Journal of Commerce*, May 6, 1941. The production of other tropical products, among them spices, drug plants, fiber plants and oil crops, is to be developed.

44. For a discussion of the objectives and work of the Commission, see *Pan American News* (Foreign Policy Association), September 12, 1940.

45. Pierson, "Foreign Lending and the Export-Import Bank," cited, April 11, 1940.

46. *The New York Times*, January 1, 1941, December 31, 1940.

47. *Hearings on H.R. 10212 superseded by H.R. 10361*, cited, p. 127.

48. *Ibid.*, p. 125.

49. See *New York Herald Tribune*, March 14, 1941.

TERMS OF LOANS

Information on the rates of interest charged on the loans of the Export-Import Bank is not published regularly. In the case of credits to finance exports of railway equipment and heavy machinery, interest ranges from 4 to 6.5 per cent, depending on maturities.[50] Recently the rates have tended toward the lower level, although maturities have been as high as ten years. No discernible policy exists on direct loans to Latin American central banks and governments, but a rate of 3.6 per cent was established for the revolving credits to Paraguay and Nicaragua, with maturities of three years. The recent commitment to the Central Bank of Argentina bears a rate of 3.6 per cent, with a maturity of 8½ years. On road building and public works loans to Haiti, Nicaragua and Paraguay, interest is at 5 per cent.

These interest rates appear low relative to the credit record of some of the borrowing countries but, on the other hand, the Bank's purpose goes far beyond that of simply making money. By the terms of the Bank's agreement with the R.F.C., 3 per cent cumulative dividends are paid on its preferred stock held by the R.F.C. Since the Bank derives funds for the bulk of its operations from this source, rates above 3 per cent must be charged in order to meet dividends and operating expenses. Charges are thus predicated on purely business principles. It should be carefully considered whether this is the proper basis for the operations of the Bank, at least during emergency periods. Perhaps the emphasis might better be placed on repayment with interest nearer the actual cost of the money, for example, from 1 to 2.5 per cent. The necessity of meeting fixed charges may have the result that the risk factor and maturities will be given greater consideration than other, more important, aspects of the various loans.

PROSPECTS OF REPAYMENT

Repayment of the Export-Import Bank loans cannot be determined solely by the classification of the various transactions into categories of self-liquidating and non-self-liquidating. In the first place, repayment is not an automatic matter. The Export-Import Bank, for example, has no lien on the dollars arising from the sale of new products by borrowing countries. Second, the willingness of the borrower to repay is an important factor. In no sense could many of the loans to Latin America be considered "self-liquidating," yet payments on all, at the last report, are current. Finally, loans are subject to the effects of general business conditions; for example, what appears at the moment as a loan not likely to be repaid may well be repaid as the result of a rise in the prices and volume of a country's exportable commodities.

A parallel has often been drawn between the period of heavy lending to Latin America in the 1920's and the present era of government loans, with the contention that similar difficulties and defaults will occur in connection with the loans now being made. The loans of the two periods differ, however, in practically every respect. First, world markets were open to the products of Latin America in the 1920's, yet this area obtained $1,503,584,099 through government and government guaranteed issues in the United States from 1920 to 1929;[51] by contrast, the commitments of the Export-Import Bank outstanding on March 31, 1941 in connection with Latin American trade totaled only $186,922,000. Second, the control which was exercised over the loans in the old era was less strict than that now imposed by the Export-Import Bank. Third, the loans were made on the basis of inflated prices and free movement goods, whereas current credits are granted as a result of deflated prices for many commodities and loss of export markets. Finally, the current service charges are considerably below the average of 6.94 per cent at which new Latin American bonds were floated between 1921 and 1929.[52] This does not mean that the Export-Import Bank loans are certain to be repaid, but it does mean that, with improvement in world conditions, repayment may prove more likely than in the case of the defaulted debts. The current loan program, moreover, takes the possibility of losses into consideration, but balances off potential losses with anticipated gains in terms of Latin American good will, cooperation, and political stability.

Repayment and, perhaps, continued servicing undoubtedly depend to a large extent on reopening of world markets for products such as corn, wheat, coffee, linseed, sugar and cocoa. Until that time, United States demand for many Latin American products will continue to be stimulated by the armament program. With a successful search for new products and new markets in the Western Hemisphere and some readjustments in United States consuming habits, reasonably satisfactory payment relations between the United States and the Latin American countries may soon develop.[53]

50. Pierson, "Export-Import Bank Operations," cited, p. 37.

51. U. S. Department of Commerce, Bureau of Foreign and Domestic Commerce, *Handbook of American Underwriting of Foreign Securities* (Washington, Government Printing Office, 1930), p. 21.

52. *Ibid.*, pp. 50-51. Actually, the cost of money was somewhat higher to the borrowers, as the underwriters' spread is not taken into account here.

53. Repayment of some of the loans might be assured by a method similar to that employed by the Bank in its loans to China. The borrowing country would ship strategic materials, the value of which could be applied against the loan.

CONCLUSION

The volume of commitments and loans made by the Bank since it received its new lending authority is probably below that expected when the request for the new powers was originally submitted in July 1940. At one time Mr. Jones stated that $500,000,000 represented approximately as much as could be loaned to the Latin American republics within six or eight months.[54]

Most of the Bank's recent commitments have been for "emergency" purposes. Relatively few have promoted the long-term program of hemispheric defense, which requires development of Latin American resources to increase exports to the United States, and to decrease the dependence of Latin America on European products. The Bank's failure to advance more rapidly in the capital investment field in Latin America may have several explanations. First, the Bank may be reluctant to commit permanently too great a volume of its funds in long-run projects while there is a demand for dollar loans to meet current exchange shortages. This obstacle could be removed by urging the Stabilization Fund to assume more responsibilities in the matter of maintaining currency values. A second difficulty may be the lack of adequate liaison agencies for the study and presentation of plans for agricultural and industrial developments in Latin America. If this condition exists, the administration and personnel of existing agencies may require reorganization. Finally, the business aspects—for example, profitability—of the proposals which have been submitted may have been given too much weight by the Export-Import Bank. While business principles have their application in the making of loans, the possible loss of some millions of dollars is relatively unimportant if economic unity and political cooperation are ultimately achieved.

As time goes on, it is hoped that there will be less need for the emergency exchange loans. This can occur only if our purchases of Latin American products increase, and other sources of domestic revenue are found to finance distressed crops. The Stabilization Fund might then take over the functions of the Bank with respect to maintaining the value of Latin American currencies relative to the dollar, leaving the Bank's resources available for the encouragement of Latin American industry, a field not properly open to the Stabilization Fund. The Bank could then become a modified and carefully regulated capital market for Latin American countries, providing them with the financial facilities needed by undeveloped areas.

The operations of the Export-Import Bank, however, constitute only one arm of the economic defense of the Western Hemisphere, and their strength and usefulness consequently depend on other factors. In order to hold the gains we have made in exports to Latin America, we must eventually accept more of its exports. A trade drive by a victorious Germany, for example, would immediately eliminate the demand for many United States exports and, as a result, the need for loans would disappear. The emergency loans of the Bank should be regarded as a stop-gap measure until the necessary adjustments can be made in the United States for stable consumption of more Latin American products. This is the essence of economic defense; to expect that the whole job can be done by loans is to indulge in wishful thinking.

If our Latin American policy is to meet the stress and strain of the present critical period, it must rest on an equitable exchange of goods and services, as well as on loans. Pointing out that cooperation with Latin America in Western Hemisphere defense may require United States farmers to discard some of their traditional patterns and prejudices, Chester C. Davis, National Defense Commissioner, declared in a speech to the National Grange that "we cannot be military friends and economic enemies of Latin America at the same time."[55] Loans, except those to finance industrial projects and development of new products, can only complement the many other measures which might be taken to expand inter-American economic relations.[56]

54. See *The New York Times*, July 24, 1940. Later, however, he declared that he thought the loans would run much less than permissible under the new authority. *Hearings on H.R. 10212 superseded by H.R. 10361*, cited, p. 105.

55. See *The New York Times*, November 21, 1940.

56. Other measures for development of inter-American economic relations will be analyzed in a *Foreign Policy Report* to be published in the fall of 1941.

The July 1 issue of FOREIGN POLICY REPORTS *will be*

DEFENSE ECONOMY OF THE U.S.: POWER AND TRANSPORTATION

by John C. deWilde